

Appendix E

Cost Comparison of FFEL and Direct Loans

When all taxpayer costs are considered, Direct student loans are less expensive for taxpayers than guaranteed student loans. The following estimates reflect the total federal administrative costs over the life of student loans made in fiscal year 2000 under both the Direct Loan program and the Federal Family Education Loan (FFEL) program. As a result, it permits a true comparison of the total costs of the programs.

- For every \$100 loaned this year, direct loans will be \$18 less expensive for the federal government than guaranteed loans (see chart below). The Direct Loan program has saved the U.S. Treasury over \$4 billion since it began in 1994, compared to the cost if all direct loans had been guaranteed loans.
- In general, direct loans are cheaper than guaranteed loans because (1) there are no federal subsidies for lenders and (2) interest earned on the loans accrues to the U.S. Treasury, instead of to private lenders.
- Borrowers of direct and guaranteed loans pay the same interest rate and comparable fees. The Direct Loan program has introduced competition to the student loan market, improving service, increasing customer satisfaction, and reducing student costs.

Federal Cost per \$100 in Student Loans		
	Direct Loans	Guaranteed (FFEL) Loans
Net Federal Subsidy Costs	(\$7.73)	\$13.05
Federal Administrative Costs	\$3.62	\$1.02
Total Federal Program Costs	(\$4.11)	\$14.07

Figures reflect net present value of the total lifetime costs of student loans made in fiscal year 2000. Numbers in parentheses indicate net payments to the Treasury. Numbers are based upon most recent OMB economic projections and could change substantially under different interest rate assumptions.

- Net federal subsidy costs include interest payments on subsidized student loans; special allowance payments to lenders on guaranteed loans; and default costs. They also include revenue from fees, defaulted loan collections, and interest earned on direct loans.
- Federal administrative costs are the net present value of all lifetime costs incurred by the federal government, such as processing applications, serving customers, and disbursing and collecting loans.